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UNCDF budgeting and decision-making processes

Summary

In its decision 2005/29 of 23 June 2005, the Executive Board welcomed the UNCDF business plan, 2005-2007, and reiterated its call to the Administrator to appoint, as soon as possible, a new Executive Secretary for UNCDF. Further, the Board requested UNCDF to report at the first session of 2006 "in an appropriate manner on its budgeting and programming decision-making processes". This report has been prepared in response to that request.

A new Executive Secretary for UNCDF was appointed on August 1, 2005. Since that appointment, UNCDF has taken initial steps towards (a) a strategic review of the UNCDF business plan and programmes; (b) the development of a comprehensive business development and resource mobilization plan; (c) realignment of the UNCDF organizational structure to increase decentralization to the regional and country levels; (d) the establishment of a strong and well-defined strategic, operational, and financial partnership with UNDP; and (e) the clarification of budgeting priorities and constraints. While much work remains to be done in each of these areas, this report provides an update of progress through October 30, 2005.

Elements of a decision

In view of the foregoing, the Executive Board may wish to (a) welcome the new Executive Secretary; (b) note the progress that UNCDF has made implementing the business plan; (c) encourage UNCDF to continue its strategic review of the business plan and complete its detailed investment plan for the 2006-2007 period; (d) request the Executive Secretary to report to the Board at the June session of the Board on the status of the strategic review and implementation of the business plan, including in particular the implementation of the business development strategy; the managing-for-results strategy; the organizational structure, staffing arrangements and budgetary arrangements set forth therein; (e) request that the Administrator work closely with the Executive Secretary to execute a memorandum of understanding between the two organizations setting forth the key elements of their strategic, operational, and financial partnership, and (f) reiterate its call upon donor countries and other countries in a position to do so to provide and sustain additional funding support for UNCDF programmes and activities in the least developed countries (LDCs).

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Introduction

1. The UNCDF business plan 2005-2007 established UNCDF as "an integral part of the wider United Nations and UNDP efforts in support of the Millennium Development Goals (MDGs)". It sought to position UNCDF "squarely at the forefront of the international development agenda as a catalytic agent for investing in development and piloting sustainable approaches that can be leveraged for policy reform and scaled up to make a significant impact on the MDGs in the LDCs". The business plan also sought to "capitalize on, and optimize, the established, successful partnership between UNCDF and UNDP to maximize the value that joint UNDP/UNCDF programmes deliver to the LDCs".

2. The business plan set forth two specific niches for UNCDF activities. The first was in "local development", specifically in "piloting models for sustainable, decentralized solutions to the delivery of basic socio-economic infrastructure and services, particularly in the poorer rural areas ...". The second niche was in "building inclusive financial sectors". That niche was defined as including "the start-up and emerging phases of microfinance sector development" and focusing on building the "institutional capacity and capital base of [microfinance institutions (MFIs)] so they become fully self-sustaining". For each of these niches, the business plan established the comparative advantages of UNCDF in relation to other service providers.

3. With regard to specific objectives, the business plan sought to expand UNCDF support in local development from 25 to 40 LDCs in the next five years and to increase its average investment size to at least $5 million per project. In the microfinance niche, the Business Plan proposed expanding UNCDF support to at least 25 LDCs by 2010 and providing capacity-building and capital support to at least 50 MFIs with an active client base of more than 5 million clients.

I. Initial strategic review of UNCDF business plan and programmes

4. An initial strategic review of the UNCDF business plan and programmes suggests that the niches in which UNCDF operates are viable and that UNCDF has significant comparative advantages in each niche. It is clear from a country-by-country review of current UNCDF programmes, and from its 'pipeline' of prospective programmes, that the products and services that UNCDF provides are in great demand and of considerable benefit to the LDCs.

5. The proposed investment plan for 2005-2007, which is currently under preparation, will provide for a growth of the total UNCDF investment portfolio from $125 million in 2005 to more than $200 million in 2007 and an increase in total LDC coverage from 28 LDCs in 2005 to 35 in 2007. Prior to approval, each individual investment proposal will be screened based on clear investment criteria, including strategic importance within the overall framework package of United Nations interventions in a country and the capacity to attract additional non-core and parallel resources from public and private investors.

6. The strategic review clearly demonstrated that UNCDF products and services are squarely aligned with the Brussels Programme of Action for the LDCs, with the MDGs, and with UNDP practice areas and service lines. Furthermore, within the United Nations and UNDP programmatic families, the UNCDF investment mandate and exclusive focus on the LDCs are unique, and provide for a singular contribution to poverty reduction and good governance objectives, among others.

7. The initial strategic review suggested four areas for additional consideration and analysis.

8. First, the local development and microfinance niches evolved within UNCDF as essentially separate activities. This separation arose largely for historical and institutional reasons. Communication and cooperation between these programme areas was limited, and joint or complementary programming was not institutionalized. As part of the ongoing expansion plans, UNCDF will explore the prospects for a stronger, more systematic collaboration among these investment activities on the ground, building on current pilots in Senegal and Benin. Such an approach would provide a more integrated approach to local development. It should also result in operational, managerial and financial efficiency gains, and increased effectiveness. Most important, it should provide the LDCs with a more comprehensive and responsive set of products and services from UNCDF that would involve investment along an integrated continuum focused on long-term national and local capital development.

9. Second, the prospects for extending UNCDF local development programmes more deeply into local economic development activities should be evaluated. The strong relationships between UNCDF and national and local governments in the LDCs; its ability to build upon and extend its local development programme and local development fund frameworks and methodologies; its focus on building inclusive financial sectors and enhanced access to financial services; and its support for emerging MFIs; all suggest that UNCDF could make a meaningful contribution to capital formation and broader economic development at the local level in the LDCs. This would require the development of new investment approaches, programmes and instruments for UNCDF, particularly as they may call for more of an enterprise and market orientation and stronger engagement and partnership with the private sector and civil society. In response to the demand of specific LDCs for UNCDF investments in this area, UNCDF will develop and pilot a number of local economic development programmes in 2006.

10. Third, UNCDF is in the initial stages of assisting various LDCs in the building of inclusive financial sectors. This financial sector approach is considerably different from the historical UNCDF approach to making individual investments in promising MFIs. As this approach is relatively new, UNCDF will need to develop, monitor, and evaluate it carefully. This sector methodology holds considerable promise to increase access to financial services dramatically among large numbers of poor people. Accordingly, UNCDF will make financial sector investments the highest priority in its microfinance practice and will focus its efforts on the LDCs in Sub-Saharan Africa. In Africa, UNCDF will also actively promote a strategic partnership of the key United Nations organizations and other development institutions around a broad initiative for financial inclusion.

11. Fourth, about half of the countries in which UNCDF is currently working are post-conflict countries. In these countries, repairing small-scale pro-poor infrastructure, strengthening service delivery and providing credit for recovery are priorities for reconstruction. In addition, strengthening local governments, building participatory and decentralized institutions and establishing inclusive financial sectors are critical for the peacebuilding process. Since UNCDF can make investments and provide distinctive capacity-building contributions in each of these areas, it should explore ways of working more consistently and more deeply in conflict and post-conflict countries and of working more closely, and in a more integrated fashion, with the UNDP Bureau for Crisis Prevention and Recovery and the wider United Nations family, on the transition from conflict to stability and development.

12. UNCDF has begun to evaluate the prospects for elaborating each of these programmatic areas. Each is consistent with the business plan and with the UNCDF mandate, experience, and capabilities. Each could reinforce the contribution of UNCDF to poverty reduction and the achievement of the MDGs within the LDCs. UNCDF will work closely with the relevant UNDP units and instrumentalities as analysis proceeds and will be able to report to the Executive Board more fully at its June 2006 session. The evolution of these issues will also inform the UNCDF programming and funding framework for 2008-2011, which will be harmonized with the new UNDP multi-year funding framework (MYFF).

II Business development and resource mobilization

13. The business plan indicated that UNCDF would develop a "comprehensive" business development strategy" during 2005. This strategy was to encompass "interlinked strategies for partnerships, branding and communications, and resource mobilization". It was to be based primarily on certain "high-profile opportunities" that would increase awareness of UNCDF; strong political support for UNCDF among the LDCs; increased donor interest in co-financing and providing non-core resources; and partnership with UNDP in resource mobilization.

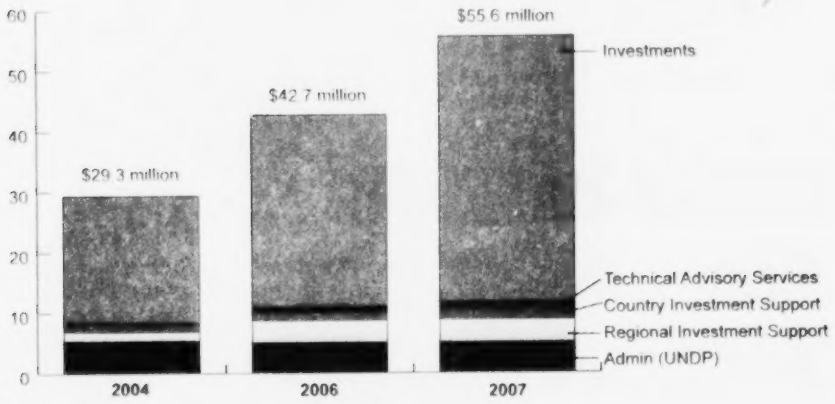
14. UNCDF is in the early stages of articulating and implementing its business development strategy. Initial meetings have been held with representatives of various donor and prospective donor countries. Visits to several donor and prospective donor capitals will take place in last quarter of 2005. Initial meetings with various bilateral and multilateral agencies have occurred, and preliminary research has been conducted identifying certain foundations that may be interested in UNCDF activities. Moreover, UNCDF has been featured prominently in the activities of the International Year of Microcredit (2005) and has gained considerable exposure and recognition as a result.

15. Much work remains to be done to mobilize sufficient financial resources to allow UNCDF to meet the goals set forth in the business plan. Table 1, below, provides a summary of the current UNCDF growth and expansion plan, which is generally aligned with business plan targets. Figure 1, opposite, sets forth the budget forecast for expenditures required to accomplish the growth and expansion plan. The budget forecast, derived from the investment plan, suggests that a minimum of $37 million in 2006 and $49 million in 2007 must be mobilized for programming, over and above the $5 million provided by UNDP for administrative costs through the 2006-2007 biennium budget. These amounts consist of core and non-core resources. Of these amounts, roughly $18 million has been committed for 2006 and $7 million has been committed for 2007. As a result, the resource mobilization challenge for UNCDF remains considerable.

Table 1. Growth and expansion plan

	2006	2007	2008-10
Total annual programme expenditures	$36.7m	$49.4m	$54.2m
Local development	$27.5m	$32.8m	$33.0m
Microfinance	$9.2m	$16.6m	$21.2m
Total number of LDCs	32	35	45
Local development	28	31	40
Microfinance	11	16	25

Figure 1. Budget forecast, 2006-2007: expenditures



16. Key elements of the UNCDF business development and resource mobilization plan will be to broaden and diversify the donor base; attract additional development partner funding; seek long-term, predictable funding from donors and partners; assure local government and MFI funding participation in all programmes; develop one or two large thematic or regional programmes for funding (such as 'local economic development in the LDCs' or 'building inclusive financial sectors in Africa"); and work closely with UNDP at the headquarters, regional and country levels to strengthen partnerships and mobilize resources.

17. UNCDF has initiated the search for a business development adviser. This would be a new position and an important part of the senior management team. It is expected that the post will be filled during the last quarter of 2005, and that a formal business development and resource mobilization strategy will be developed during first quarter of 2006. UNCDF expects to include a summary of the strategy in its report to the Executive Board at its annual session 2006.

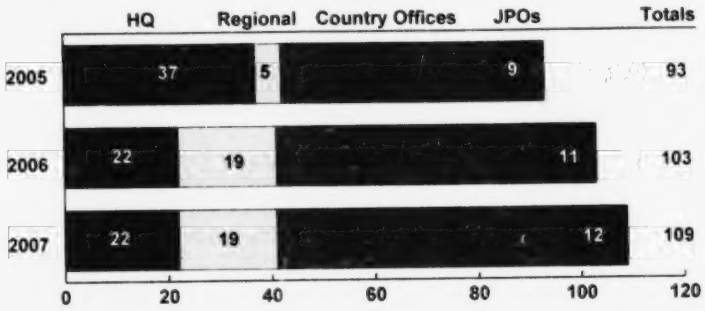
18. Under any circumstances, resource mobilization will be the most important challenge and constraint facing UNCDF during the 2006-2007 biennium. Accordingly, UNCDF will seek to establish close resource mobilization partnerships with the Bureau of Resources and Strategic Partnerships and the Bureau for Crisis Prevention and Recovery of UNDP, with the UNDP regional bureaux, with the Resident Representatives of UNDP country offices, and with other United Nations and UNDP entities as appropriate. In addition, it is anticipated that UNCDF will become an important part of the 'integrated package of services' that UNDP is developing, so that UNCDF products and services can be marketed and funded together with other UNDP programmes.

III. Organization and management structure

19. The business plan foresees a significant expansion of UNCDF presence in the LDCs. In addition, $5 million of UNCDF administrative costs have been mainstreamed into the UNDP biennium budget for 2006-2007. In view of these and other factors, UNCDF began a restructuring process in August 2005 that decentralizes its operations to the regional and country levels and significantly reduces its headquarters staff. Figure 2, on page 6, demonstrates this restructuring and sets forth the growth of UNCDF regional and country office

personnel (excluding junior professional officers) from 47 in 2005 to 75 in 2007, with more than 80 per cent of the increase in numbers of professional staff. Headquarters staff is reduced from 37 to 22 during the same period.

Figure 2: Impact of restructuring on UNCDF workforce composition



20. The restructuring has been designed to bring UNCDF closer to the LDCs in the field; to mirror the regionalization trends in UNDP and the United Nations system at large; and to reduce overhead costs. With more professional staff on the ground in more LDCs to ensure a more cost-effective service delivery system, resource mobilization at the regional and country levels is expected to improve. UNCDF field staff will be co-located with UNDP within country offices and regional service centres, enhancing efficiency, prospects for joint programming and resource mobilization, knowledge sharing, and opportunities for the coordination, simplification and harmonization of service delivery.

21. The restructuring at headquarters is largely completed, although seven positions remain to be filled. The most important among these are the posts of business development adviser and operations adviser, both of which are newly created positions critical to the successful implementation of the UNCDF restructuring and business plan. It is anticipated that the posts will be filled by the end of 2005. Similarly, a local development adviser post, currently vacant, should be filled by the end of 2005.

22. The alignment of UNCDF regional and country presence with the business plan began in October 2005 and is expected to be completed by 30 June 2006. Progress on the restructuring and expansion plans discussed above will be presented in the report to the Executive Board at its annual session 2006, together with the associated financing picture.

IV. Partnership with UNDP

23. The business plan acknowledged the importance to UNCDF of a "strong, well-defined partnership with UNDP...". Such a partnership would enable UNDP and UNCDF to "systematically exploit opportunities for enhanced efficiency and effectiveness within the United Nations system in line with the broader simplification and harmonization agenda and process of the United Nations reform". In that context, the business plan noted the programmatic alignment of UNCDF with the UNDP MYFF, 2004-2007, specifically with respect to its local poverty initiatives – including the microfinance, private sector development, and local governance service lines.

24. For UNCDF, clarifying, coordinating, simplifying, and harmonizing roles and relationships with UNDP is a top priority. UNDP is the most important partner of UNCDF, and it is committed to working closely and in a comprehensive manner with UNDP. In particular, UNCDF is seeking joint programming opportunities with UNDP and expects to participate fully in the development of the UNDP 'integrated package of services'. Similarly, UNCDF has suggested developing specialized products and services in conjunction with UNDP for utilization in conflict and post-conflict countries. UNCDF also expects to collaborate and cooperate with UNDP in resource mobilization and in the areas of South-South initiatives, public-private sector partnerships in the LDCs, and the involvement of the private sector in local economic development and the building of inclusive financial sectors.

25. It will take time to define and establish these critical areas for collaboration and partnership between UNCDF and UNDP. It is not yet clear that all of them can or should be operationalized, or in what time frames. UNCDF will continue to pursue them with UNDP during the coming months, reporting developments to the Executive Board on a regular basis.